

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**FOR  
THE CALIFORNIA EMPLOYERS' RETIREE BENEFIT TRUST (CERBT) FUND**

**August 15, 2011**

*This policy is effective immediately upon adoption and supersedes all previous policies governing the Annuitants' Healthcare Coverage Fund, also known as the California Employers' Retiree Benefit Trust (CERBT) Fund.*

**I. PURPOSE**

The California Public Employees' Retirement System ("CalPERS") Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the policy portfolios ("Portfolios") of the California Employers' Retiree Benefit Trust ("CERBT"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Portfolios. Additionally, use of this Policy ensures sufficient flexibility in managing investment risks and returns associated with the CERBT.

The CERBT was established March 1, 2007 for public employers to prefund their retiree health and other post-employment benefit obligations. The CERBT is currently known in statute as the Annuitants' Healthcare Coverage Fund. There are three separate Portfolios ("Strategy 1", "Strategy 2", and "Strategy 3") for the CERBT, which provide employers a choice of asset allocation strategies.

**II. STRATEGIC OBJECTIVE**

Each of the CERBT Portfolios shall be managed to accomplish the following:

- A. Offer to employers a distinct investment alternative.
- B. Invest in an asset allocation mix with targets and ranges based on a periodic asset liability management review.
- C. Maintain significant diversification to temper losses from market volatility.
- D. Ensure that the asset class policy ranges approved by the Committee are adhered to, and that any rebalancing is performed efficiently and prudently.
- E. Maintain adequate liquidity to meet cash needs.

### III. RESPONSIBILITIES

- A. In addition to the Committee's responsibilities outlined in the Total Fund Statement of Investment Policy, the Committee is also responsible for approving asset classes for investment and approving a policy target allocation, permissible range, and benchmark for each asset class.
- B. CalPERS Investment Staff ("Staff") is responsible for the following:
  - 1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.
  - 2. Providing individualized asset allocation strategy recommendations to the Committee, including selection of asset class benchmarks, Policy targets and ranges.
  - 3. Managing the asset class allocations of the Portfolios within Policy ranges approved by the Committee, in accordance with Policy guidelines.
  - 4. Creating internally managed funds and soliciting externally managed funds to be used in the composition of the Portfolios.
  - 5. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations.
  - 6. Reporting internally to the Committee concerning the implementation of this Policy. This report shall include, but is not limited to, the current market value and asset allocations compared to the Policy targets and ranges.
  - 7. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies at the next Committee meeting. All events deemed materially important will be reported to the Board immediately. These reports shall include explanations of any violations and appropriate recommendations for corrective action.
- C. The [General Pension Consultant](#) ("Consultant") is responsible for:
  - 1. Monitoring, evaluating, and periodically reporting to the Committee on the three CERBT Portfolios' performance relative to the benchmark and Policy.
- D. External Managers ("Manager") are responsible for aspects of portfolio management as set forth in each Manager's contract with CalPERS and shall fulfill the following duties:

1. Communicate with CalPERS staff, as needed, regarding investment strategies and investment results.
2. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
3. Cooperate fully with CalPERS staff, Custodian and Consultant concerning requests for information.

#### IV. PERFORMANCE OBJECTIVE AND BENCHMARK

- A. The CERBT benchmark for the Affiliate Funds is specified in the Policy for Benchmarks. The CERBT is included in the Affiliate Funds section of the Policy.
- B. CalPERS shall invest the assets of each of the CERBT Portfolios to meet or exceed the individualized benchmark designated in the Policy.

#### V. INVESTMENT APPROACHES AND PARAMETERS

- A. Philosophy and Approach

The CERBT Portfolios shall be managed in accordance with the CalPERS Total Fund Statement of Investment Policy and in a manner consistent with the respective investment policy governing each asset class. Such policies approved by the Committee shall specify the method and parameters for implementation and provide for the ongoing monitoring of that asset class.

- B. Strategic Asset Allocation Process

A comprehensive asset allocation strategy analysis shall be completed at least once every three years and will be presented to the Committee for review and approval of the Policy target asset allocation and ranges. The CIO may recommend a more frequent analysis if expected returns, risks or liability values have substantially changed since the prior analysis. The CIO may also recommend to the Committee changes in the Policy asset allocation targets and ranges. A target for cash is exempt from consideration.

- C. Fund Structure/Parameters

Staff shall manage the Portfolios in accordance with the approved strategic asset allocation. CalPERS Custodian shall employ a [unitized fund structure](#) to maintain separate and distinct historical records and to produce individual [net asset values \(NAV's\)](#) for each asset class.

- D. Policy Asset Allocation Targets and Ranges

The Committee shall approve Policy asset allocation targets and ranges expressed as a percentage of total assets. The Committee shall set Policy ranges sufficiently wide to permit efficient and flexible implementation, yet sufficiently narrow to maintain the basic risk and return relationship established by the allocation targets.

There are three separate CERBT Portfolios ("Strategy 1", "Strategy 2", and "Strategy 3"). Levels of expected return and risk vary among the Portfolios. The Policy asset allocation targets and permissible ranges are as follows:

| Asset Class                | Strategy 1        |              | Strategy 2        |              | Strategy 3        |              |
|----------------------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
|                            | Policy Allocation | Policy Range | Policy Allocation | Policy Range | Policy Allocation | Policy Range |
| U.S Inflation Linked Bonds | 5%                | +/- 2%       | 15%               | +/- 4%       | 15%               | +/- 4%       |
| U.S. Nominal Bonds         | 18%               | +/- 5%       | 24%               | +/- 5%       | 42%               | +/- 5%       |
| Global Equity              | 66%               | +/- 5%       | 50%               | +/- 5%       | 32%               | +/- 5%       |
| Global Public Real Estate  | 8%                | +/- 2%       | 8%                | +/- 2%       | 8%                | +/- 2%       |
| Commodities                | 3%                | +/- 2%       | 3%                | +/- 2%       | 3%                | +/- 2%       |
| Expected Return            | 7.10%             |              | 6.50%             |              | 5.75%             |              |
| Expected Risk              | 11.73%            |              | 9.46%             |              | 7.27%             |              |
| Return/Risk                | 0.61%             |              | 0.69%             |              | 0.79%             |              |

*Approved by the Investment Committee August 15, 2011.*

#### E. Rebalancing

Adherence to the Policy asset allocation targets and ranges shall be monitored and reported to the Investment Committee as part of the quarterly performance report. This report shall display a comparison between the Portfolios' asset class allocations and the Policy asset allocation targets and ranges. The report shall also compare the investment performance results of each asset class and the benchmark returns.

Asset class allocations shall be managed to be within Policy ranges. Cash in the portfolio will be held within a range of 0 – 1%. Allocations may temporarily deviate from Policy ranges due to employer contributions and/or extreme market volatility. If an asset class allocation exceeds the Policy range, staff shall return the asset allocation to within its Policy range in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity.

Changes in Policy asset class allocations may be achieved by the movement of capital between asset classes through the trading of [pooled funds](#) or through the use of derivatives. The intent is for Policy asset class

allocations to be actively managed rather than being allowed to passively drift with recent relative asset class returns.

F. Restrictions, Prohibitions and Authorized Securities

Restrictions, Prohibitions and Authorized Securities of the CERBT are defined in the policy governing each asset class or external investment manager guidelines.

## VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis, as recorded by CalPERS Custodian.

## VII. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS Master Glossary of Terms.

### California Employers' Retiree Benefit Trust

Approved by the Policy Subcommittee:

June 15, 2011

Adopted by the Investment Committee:

August 15, 2011

**The California Employers' Retiree Benefit Trust was previously the Annuitants' Healthcare Coverage Fund and Attachment A of the Affiliate Fund Policy. The dates below reflect the revision history of the Affiliate Fund Policy:**

### Affiliate Fund Policy

Approved by the Policy Subcommittee:

August 18, 2008

Adopted by the Investment Committee:

September 15, 2008

Revised by the Investment Committee:

December 15, 2008

Admin changes made due to Policy Review Project:

June 16, 2009

Admins changes due to adoption of Benchmark Policy:

September 28, 2009

### Annuitants' Healthcare Coverage Fund (Policy consolidated into the Affiliate Fund Policy)

Approved by the Policy Subcommittee:

December 15, 2006

Adopted by the Investment Committee:

December 18, 2006

Repealed by the Policy Subcommittee:

August 18, 2008

Repealed by the Investment Committee:

September 15, 2008